THE RUTLAND CORPORATION ANNUAL REPORT 1967

annual report '67

THE RUTLAND CORPORATION, RUTLAND, VERMONT

DAVID R. WEBB COMPANY DIVISION, EDINBURG, INDIANA

OFFICERS:

President:
Frank A. Augsbury, Jr.

Executive Vice President:
Lloyd G. Bucklin

Vice President:
Ernest E. Pence

Treasurer:
Rhoby H. Conant

Clerk (Secretary):
Lloyd G. Bucklin

DIRECTORS:

***Wallace M. Fay**
Chairman of the Board
***Frank A. Augsbury, Jr.**
Lloyd G. Bucklin
Harry M. Ditisheim
L. James Gumpert
Michael Joelson
***Lawrence R. Kessel**
George J. Lyon
***Louis S. Rothschild**

COUNSEL:

Thomas W. Lynch, Esq., Vermont
Stroock & Stroock & Lavan, Esqs.,
New York

CERTIFIED PUBLIC ACCOUNTANTS:

Haskins & Sells, Boston, Mass.

REGISTRAR:

United States Trust
Company of New York

TRANSFER AGENT:

Chemical Bank New York
Trust Company

(*denotes member of the Executive Committee)

CORPORATE INFORMATION

March 29, 1968

To the stockholders

Despite the generally uncertain course of industry and the United States economy, operations of The Rutland Corporation for the calendar year 1967 maintained an excellent earnings level.

The reduction in buying for inventory by business, followed particularly in the furniture and other wood using industries, was an important cause of the decline during the first half of the year. Industrial production was an inevitable casualty of these cutbacks, which continued through mid-year.

In the face of these declines and continued caution on the part of business regarding expansion, The Rutland Corporation earned a consolidated net income of $356,784 from combined operations of the David R. Webb Company and The Rutland Shopping Plaza. This compares with a consolidated net loss the preceding year of $96,512. Consolidated net income per Common share for the year 1967 amounted to $2.43 compared with a consolidated net loss per Common share in 1966 of $4.33.

Inventories of the David R. Webb Company have been balanced and expanded to provide the division with increased sales potential by reason of the greater variety of species and wider selection of woods.

To enable the division to improve customer deliveries and service, Webb is also increasing its warehousing and handling facilities in Edinburg, Indiana. Additional buildings have been acquired there as part of a continuing expansion program which will result in more rapid and efficient materials handling, faster truck loading and "turn-around" time, reduction in the "back-ordering" of merchandise, and other customer service improvements.

Mr. Ernest E. Pence has been elected Vice President of The Rutland Corporation and named General Manager of the David R. Webb Company division replacing Michael Joelson who retired due to ill health. Mr. Max Spoerri continues as General Sales Manager and Mr. John Grunwald as Field Sales Manager. All three executives are members of Webb's original management group and continued with the company when it became a division of The Rutland Corporation. Webb's management has also been expanded by the addition of a Plant Operations Manager, Mr. Luke Pinsonneault; a Raw Materials Procurement Manager, Mr. Ralph E. Miller; and a controller, Mr. Michael J. Tuccio.

Your Company's Consolidated Balance Sheet at December 31, 1967 reflects its excellent financial condition. Current assets amounted to $4,317,707 compared with current liabilities of $756,902, a current ratio of almost 6 to 1.

During the calendar year 1967, your Company completed the liquidation of its former railroad operating properties including such transportation assets as bridges, trestles, etc. We received $126,777 which amount is approximately equal

to the estimated realizable value established for them in 1964. This brought the total proceeds realized from such railroad assets during the period from 1962 to December 31, 1967 to approximately \$8,650,000. Former railroad non-transportation properties still held at year-end are shown in the accompanying Consolidated Balance Sheet at \$377,501. It should be noted that substantial but non-recurring expenses in connection with the final disposition of former railroad operating properties have been charged against the Company's consolidated net income for the year under review.

Your Company's one-half interest in The Rutland Shopping Plaza is contributing an increasing positive cash flow to corporate assets. At December 31, 1967, the Plaza was over 90% rented with additional tenancies scheduled for early in 1968.

We are pleased to report that, subsequent to December 31, 1967, negotiations were completed for the sale of your Company's former headquarters building in Rutland, Vermont for a total price of \$200,000. This sale will further improve your Company's liquidity and its opportunities to make additional acquisitions which are being vigorously investigated.

General corporate overhead has also been reduced with corporate staff personnel now limited to three persons.

At December 31, 1967, capitalization of The Rutland Corporation consisted of 46,664 shares (1,000 shares held in treasury) of \$65 par value, 6% cumulative preferred stock (quarterly dividend of 97½¢ or \$3.90 per year); 73,612 shares of common stock; and 46,664 warrants entitled to purchase an equal number of common shares at varying prices beginning at \$40 per share.

The accompanying Consolidated Balance Sheet as at December 31, 1967 and Statement of Consolidated Income and Deficit for the year then ended reflect a deficit of \$2,707,564 based primarily on railroad accounting methods formerly required by the Interstate Commerce Commission. However, under the Internal Revenue Code, your Company's 1967 Federal Corporate Income Tax return will show an aggregate net operating loss carry forward of approximately \$15,000,000. The Company's returns for the years in which such net operating losses were incurred have not yet been examined by Internal Revenue Service.

Dividends on the 45,664 outstanding shares of \$65 par value Preferred stock have been paid through December 31, 1967. On March 4, 1968, the Board of Directors declared the regular quarterly dividend of 97½¢ per share on the Preferred stock, payable March 29, 1968 to stockholders of record March 15, 1968.

The Directors and Officers wish to express their appreciation for the continued support and confidence of our stockholders and employees.

By order of the Board of Directors

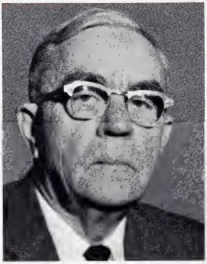
W. M. Fay

Wallace M. Fay
Chairman

F. A. Augsbury, Jr.

Frank A. Augsbury, Jr.
President

EXECUTIVE COMMITTEE



WALLACE M. FAY
Chairman of the Board
The Rutland Corporation
Formerly Vice-President
(Retired); Vermont Marble Company

FRANK A. AUGSBURY, JR.
President

President: George Hall Corporation, Hall Corporation of Canada, Augsbury Oil Corporation, Augsbury Terminals, Inc., Green Mountain Petroleum Corporation.

Director: Empire State Chamber of Commerce, Agricultural Insurance Company, Ogdensburg Trust Company, National Bank of Northern New York.

LOUIS S. ROTHSCHILD
Director

Formerly United States Undersecretary of Commerce; Chairman of the Federal Maritime Board.

President: Transport Equities Corporation, Standard Real Estate Improvement Company.

Director: Mechanical Enterprises, Inc.

LAWRENCE R. KESSEL
Director
General Partner, Lawrence Kessel & Associates, Investments.

Member of Board of Managers: The Delaware and Hudson Company.

Director: The Delaware and Hudson Railroad Corporation, Wood Harmon Corporation.

Special Consultant: The Walter Reade Organization, Inc.

DAVID R. WEBB COMPANY DIVISION

The David R. Webb Company, now a division of The Rutland Corporation, is a leading manufacturer of quality hardwood veneers for the furniture and plywood industries, architects and designers. The company also produces walnut lumber.

The business was founded 73 years ago, in 1895. Its manufacturing headquarters and warehousing facilities are located in Edinburg, Indiana, about 35 miles from Indianapolis. Some 200 people are employed in well maintained facilities. Modern machinery and equipment, one of the largest inventories of veneers in the world, and an outstanding corps of wood and veneer experts enable Webb to provide its markets with efficient service and consistently high standards of product quality.

Webb showrooms are located in Edinburg, Indiana; New York City, New York; High Point, North Carolina; Los Angeles, California; Memphis, Tennessee; Grand Rapids, Michigan; and Montreal, Quebec, Canada. From these regional headquarters, Webb sales personnel serve all segments of the company's markets in the United States, Canada, Europe and South America.

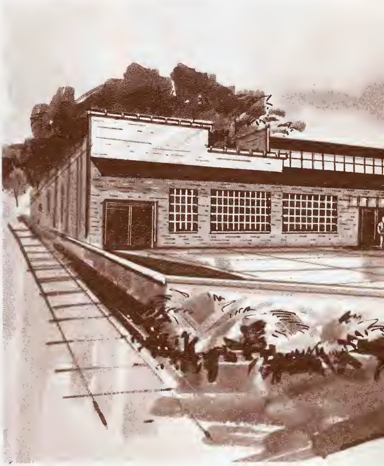
As part of the company's continuing expansion program, Webb established a separate Architectural Veneer Department headed by Mr. Arne Thomsson, recognized as an authority on quality hardwood veneers. Facilities and personnel of the Department enable it to promptly cater to the requirements of architects and designers throughout the United States and Canada.

Webb stocks more than 75 native (domestic) and imported species of veneers including Walnut, Cherry, Maple, White Oak, Ash, Elm, Brazilian Rosewood, Burmese Teak, Macassar Ebony, Japanese Tamo Wood, East Indian Laurel, Swedish Pine, Swiss Pearwood, African Zebra Wood, Central American Prima Vera, French Walnut, English and German Oak, Carpathian Elm and many other exotic varieties.

Webb veneers are used throughout the world in buildings, offices and facilities of leading corporations, institutions and other organizations.

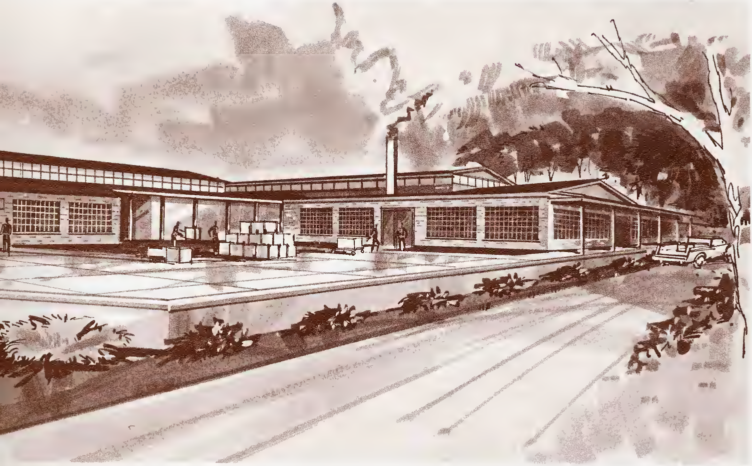
The International Monetary Fund Building, Washington, D.C. Lounge and Mezzanine Lounge are finished in ribbed and planked paneling of Webb Quartered Teak veneer.

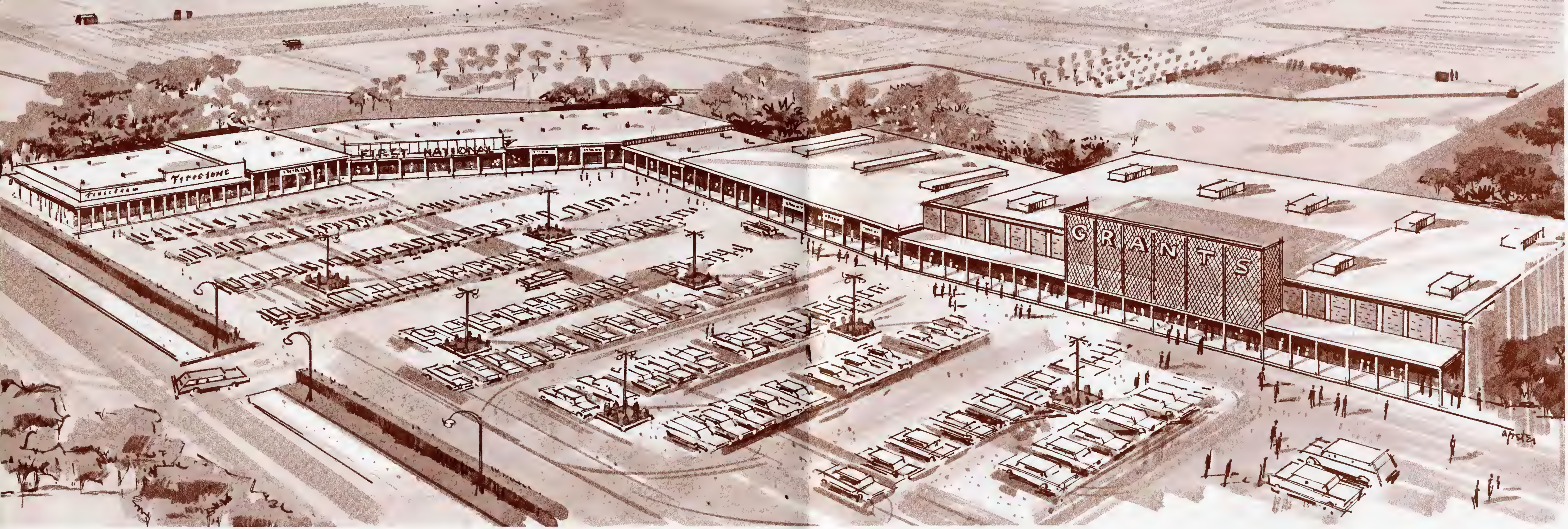
Additional buildings acquired by David R. Webb Company in Edinburg, Ind. are part of a continuing expansion program which includes increasing Webb's warehousing and handling facilities.



Webb Teak veneer was selected for the executive offices of the Girard Trust Company, Philadelphia, Pa.

The Webb Brazilian Rosewood veneer used for this oval table top enhances the sculptured elegance of this dining room furniture designed by Harvey Probber.





The Rutland Shopping Plaza.

THE RUTLAND SHOPPING PLAZA

The Rutland Shopping Plaza, one of the first "downtown" shopping centers in the United States, is a joint venture of The Rutland Corporation and Philip J. Levin, one of the country's leading developers of realty projects.

The Plaza is located in the center of Rutland, Vermont on the site of what was formerly the Rutland Railway Company's freight and passenger depots and railroad yards. It contains 167,449 square feet of rentable space surrounded (except for a remaining Vermont Railway Company single track right of way at the rear of the site) by parking facilities for more than 1,000 cars.

The Plaza is stimulating extensive property improvements in downtown Rutland and having a favorable effect on the value of other real estate owned by your Company in that city. Approximately two-thirds of your Company's realty holdings in Rutland were allocated to the Plaza. The remaining property, including the modernized building used as the Company's headquarters (negotiations for the sale of which were completed subsequent to December 31, 1967 for a total price of $200,000), adjoins the Plaza.

THE RUTLAND CORPORATION AND SUBSIDIARIES

ASSETS

	1967	1966
CURRENT ASSETS:		
Cash	$ 215,135	$ 1,118,533
Short-term investments — at cost plus accrued interest	1,020,785	1,419,644
Receivables:		
Trade	334,015	492,969
Other	152,518	134,672
Inventories — at the lower of average cost or market	2,542,645	2,021,396
Prepaid expenses	52,609	48,255
Total current assets	4,317,707	5,235,469
PROPERTY, PLANT, AND EQUIPMENT—At cost, less accumulated depreciation of $151,340 in 1967 and $49,805 in 1966	1,667,275	1,682,113
INVESTMENTS:		
Rutland Shopping Plaza (Note 2)	70,505	30,540
French affiliate (Note 3)	44,850	118,947
Other	15,131	14,431
Total investments	130,486	163,918
OTHER ASSETS:		
Excess of purchase price over net assets of acquired business (Note 1)	3,392,516	3,381,253
4% note receivable (Note 4)	500,448	500,448
Former railroad properties held for disposal — at estimated realizable value	377,501	524,898
Non-current instalment notes and other receivables	9,500	32,663
Restricted funds and other deposits	53,204	16,072
Total other assets	4,333,169	4,455,334
TOTAL ASSETS	$10,448,637	$11,536,834

See notes to financial statements.

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1967 AND 1966

LIABILITIES AND SHAREHOLDERS' EQUITY

	1967	1966
CURRENT LIABILITIES:		
Note payable to bank — current portion (Note 5)	$ 450,000	$ 700,000
Trade accounts payable	55,168	157,089
Employee withholdings	16,816	29,068
Accrued expenses:		
Salaries, wages, bonuses, and commissions	78,696	80,155
Property, payroll, and other taxes	49,362	40,099
Professional services	55,018	137,623
Pension plan contribution (Note 6)	21,993	
Interest	7,444	
Portion of liabilities assumed from David R. Webb Company, Inc. (Note 1)		591,928
Other	22,405	
Total current liabilities	756,902	1,735,962
NON-CURRENT LIABILITIES:		
Notes payable — less current portion included above (Note 5)	3,300,000	3,600,000
Retirement benefits payable after one year (Note 6)	339,886	304,125
Casualty and other claims, etc.	15,304	38,896
Total non-current liabilities	3,655,190	3,943,021
Total liabilities	4,412,092	5,678,983
SHAREHOLDERS' EQUITY (Notes 5 and 7):		
Capital stock:		
6% cumulative preferred, $65 par value—authorized and issued, 46,664 shares; outstanding, 45,664 shares, after deducting 1,000 treasury shares below	3,033,160	3,033,160
Common, $1 par value—authorized, 606,916 shares; issued and outstanding, 73,612 shares	73,612	73,612
Capital surplus	5,690,930	5,690,930
Deficit	(2,707,564)	(2,886,258)
Total	6,090,138	5,911,444
Less treasury stock — 1,000 shares of 6% cumulative preferred, at cost	53,593	53,593
Shareholders' equity—net	6,036,545	5,857,851
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$10,448,637	$11,536,834

See notes to financial statements.

STATEMENT OF INCOME AND DEFICIT FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966 (Note 1)
INCOME:		
Sales of products — net	$ 4,583,790	$ 1,117,743
Interest	82,092	175,016
Share of net income (loss) of Rutland Shopping Plaza (Note 2)	12,965	(46,872)
Rentals and other	5,434	19,633
Total	4,684,281	1,265,520
COSTS, EXPENSES, AND CHARGES (Note 8):		
Cost of products sold	2,901,566	669,822
Selling expenses	505,096	82,700
General and administrative expenses (including expenses of investigating acquisition opportunities —Note 10)	580,876	460,074
Maintenance expenses and other charges—former railroad properties	77,746	86,405
Interest	262,213	63,031
Total	4,327,497	1,362,032
NET INCOME (LOSS)	356,784	(96,512)
DEDUCT—Cash dividends on 6% cumulative preferred stock—$3.90 per share (1966—declared from capital surplus)	178,090	
Remainder	178,694	(96,512)
DEFICIT AT BEGINNING OF YEAR	(2,886,258)	(2,789,746)
DEFICIT AT END OF YEAR	$(2,707,564)	$(2,886,258)
NET INCOME (LOSS) **PER COMMON SHARE** (Note 9)	$2.43	$(4.33)

STATEMENT OF CAPITAL SURPLUS FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
BALANCE AT BEGINNING OF YEAR	$5,690,930	$5,206,571
ADD:		
Excess of proceeds of sale of common stock over par value (Note 4)		661,500
Sundry credits		950
Total	5,690,930	5,869,021
DEDUCT — Cash dividends on 6% cumulative preferred stock — $3.90 per share (1967 — declared from net income)		178,091
BALANCE AT END OF YEAR	$5,690,930	$5,690,930

See notes to financial statements.

CONSOLIDATED STATEMENTS FOR THE YEARS ENDED DECEMBER 31.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1967

		1967
SOURCE OF FUNDS:		
Operations:		
Net income for the year		$ 356,784
Charges (credits) not requiring current expenditures of funds:		
Depreciation (straight-line basis)	$108,993	
Provision for future retirement benefits (Note 6)	56,544	
Share of net income of Rutland Shopping Plaza (Note 2)	(12,965)	
Other — net	12,124	164,696
Funds provided from operations		521,480
Sale of former railroad properties		126,777
Liquidating distributions from French affiliate (Note 3)		74,097
Reduction in receivables		157,698
Total		880,052
APPLICATION OF FUNDS:		
Reduction in note payable to bank		550,000
Payment of liabilities assumed in acquisition of David R. Webb Company, Inc. (including 1967 adjustments to tax liabilities (Note 1)		602,580
Dividends on 6% cumulative preferred stock		178,090
Increase in inventories		521,249
Reduction in accounts payable and accrued expenses		159,537
Purchase of property items		108,612
Insurance and other deposits, etc.		35,241
Advances to Rutland Shopping Plaza		27,000
Total		2,182,309
EXCESS OF FUNDS APPLIED		$1,302,257

CASH AND SHORT-TERM INVESTMENTS:	
Beginning of year	$2,538,177
End of year	1,235,920
Decrease during the year	$1,302,257

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1967

1. BASIS OF STATEMENTS

On October 21, 1966 The Rutland Corporation purchased all of the assets of David R. Webb Company, Inc. for cash and the assumption of all Webb liabilities. The operations thus acquired have been continued as the David R. Webb Company Division of the Corporation. The results of operations of this division and a related wholly-owned subsidiary, Webb Realty Corp., are included in the financial statements from the date of their acquisition. The excess of the purchase price over the net assets acquired, including 1967 adjustments to certain tax liabilities assumed, is not being amortized.

The financial statements also include (1966 on a restated basis) a wholly-owned inactive subsidiary which maintains only a nominal cash balance.

For purposes of comparison, 1966 amounts for certain items of property, plant, and equipment formerly in use or rented have been reclassified as properties held for disposal due to their anticipated sale in 1968.

2. INVESTMENT IN RUTLAND SHOPPING PLAZA

At December 31, 1967 the Corporation's investment in the Rutland Shopping Plaza, a 50% joint venture, is stated at its approximate equity therein plus advances aggregating $32,000.

In January 1968, the Corporation sold to the other joint venturer for its estimated realizable value ($40,000) a one-half interest in certain land held for disposal. The joint venturers then contributed to the Plaza their respective one-half interests in such land.

The properties of the Plaza are mortgaged and certain leases are assigned under a twenty-year, first mortgage loan agreement which provides that the joint venturers will not be liable for any deficiency between the loan balance and the proceeds of any foreclosure sale.

In connection with the leasing by the Plaza of an adjoining municipal parking area, the Corporation has guaranteed the payment of a $125,000 promissory note of the City of Rutland to be paid from the receipts of all City parking meters. The balance payable by the City under this note was $109,699 at December 31, 1967.

3. INVESTMENT IN FRENCH AFFILIATE

The Corporation's investment in 53% of the outstanding capital stock of Societe de Fabrication et D'Exportation de Placages, a French corporation in process of liquidation, approximates the estimated amount to be received as remaining liquidating distributions.

4. 4% NOTE RECEIVABLE

In 1966 the Corporation sold for $50 a share 13,500 shares of common stock of which 12,832 (held as collateral) were sold to a company owned by certain key employees of the David R. Webb Company Division. The Corporation received as partial payment therefor a 4% promissory note for $500,448 due on October 21, 1969. The excess of the proceeds of the sales over the par value of the common stock issued was credited to capital surplus.

5. NOTES PAYABLE

The Corporation is indebted under two loan agreements in an aggregate amount of $3,750,000 at December 31, 1967. A note is payable to a bank, with interest at 6¾%, in quarterly instalments of $150,000 to June 30, 1968 (the instalment due December 31, 1967 having been deferred until February 5, 1968). A non-current note is payable to an insurance company in annual instalments of $236,000 from July 1, 1969 through July 1, 1981 and a final instalment of $232,000 on July 1, 1982, together with interest at 6½% and supplemental annual fee payments based upon consolidated net earnings. No supplemental payment is due in respect to the year ended December 31, 1967.

The aforementioned loan agreements contain certain restrictive provisions including requirements as to the maintenance of consolidated working capital and restrictions on the payment of dividends and other distributions, except for stock dividends and regular dividends on the 6% cumulative preferred stock; no cash dividends may be paid on the Corporation's common stock prior to July 1, 1968.

6. RETIREMENT BENEFITS PAYABLE, ETC.

The Corporation has a trusteed pension plan for salaried employees of the David R. Webb Company Division which provides monthly retirement income through the purchase of annuity contracts as well as certain life insurance benefits. Under this plan the Corporation charged against income and contributed to the trust $37,884 for the year ended December 31, 1967. There is no past service liability with respect to this plan.

The Corporation also has unfunded pension and retirement obligations, the liability for certain of which was assumed and recorded upon the acquisition described in Note 1. Income for the year ended December 31, 1967 was charged with $56,544, representing current provisions for those obligations not assumed, which have been determined on an actuarial basis and are to be provided over the remaining period of employment, and interest on the amount of all unfunded obligations at the beginning of the year.

The Corporation has employment and consulting agreements for periods of from three to five years with management personnel of the David R. Webb Company Division providing for fixed annual compensation plus profit-sharing bonuses.

7. COMMON STOCK OPTION PLAN AND WARRANTS

Under the provisions of a Key Employees Qualified Stock Option Plan approved by the stockholders in 1966, options may be granted to eligible key employees to purchase up to 7,500 shares of common stock at a price at least equal to the fair market value of the stock at the date of grant. Options are exercisable for a period of up to five years from the date of grant; one-third are exercisable cumulatively in each of the first three years. At December 31, 1967 options for the purchase of 2,800 shares were outstanding at an aggregate option price of $176,200; no options have been exercised under this plan.

At December 31, 1967 warrants for 46,664 shares of the Corporation's common stock were outstanding and an equal number of shares of unissued stock were reserved therefor. Each warrant, issued in 1964 in connection with an exchange of the Corporation's preferred stock, entitles the holder to purchase one share of common stock during a ten-year period at $40 per share during the first three years, $45 per share during the next three years, and $50 per share thereafter. The warrants are not exercisable and the ten-year period does not commence until a registration statement under the Securities Act of 1933 is effective.

8. FEDERAL INCOME TAX STATUS

The Corporation anticipates that its 1967 Federal income tax return will show a net operating loss resulting from losses realized for tax purposes upon the sale in 1967 of certain former railroad properties held for disposal. Accordingly, no provision for Federal income taxes is reflected in the accompanying financial statements.

The 1966 Federal income tax return filed by the Corporation showed substantial aggregate net operating losses incurred in 1966 and prior years available for carry-forward against future taxable income in decreasing amounts for a period of at least five years. None of the years in which the carry-forward losses were incurred have been examined by the Internal Revenue Service.

9. NET INCOME (LOSS) PER SHARE

Per share amounts shown on the statement of income and deficit are based on the average number of common shares outstanding during each year, after recognition of the dividend requirements on the 6% cumulative preferred stock.

On a pro forma basis, net income per share of common stock giving effect to the exercise of all stock options and warrants and to the interest income to be earned with the proceeds would have been approximately $2.28 for the year ended December 31, 1967.

10. ACQUISITION PROGRAM

The Corporation's management has been investigating additional acquisition opportunities, the consummation of which could result in the investment of cash and/or additional borrowings or the issuance of capital stock.

ACCOUNTANTS' OPINION

HASKINS & SELLS
Certified Public Accountants

70 Federal Street
Boston 02110

The Rutland Corporation:

We have examined the consolidated balance sheet of The Rutland Corporation and subsidiaries as of December 31, 1967 and the related statements of consolidated income and deficit, capital surplus, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements present fairly the financial position of the companies at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

February 26, 1968